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September 10, 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

**RECEIVED**  
**SEP 10 1996**  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: Ex Parte Presentation  
CC Docket No. 96-45  
Federal - State Joint Board on Universal Service

Dear Mr. Caton:

On Monday, September 9, 1996, Gerry Salemme, Joel Lubin, Paul Malandrakis and I met with Chairman Reed Hundt, John Nakahata, Joseph Farrell, Regina Keeney, Kathleen Levitz, Melissa Newman, Jane Jackson, Greg Rosten, Robert Pepper and Elliott Maxwell to discuss AT&T's proposal for Universal Service and Access Reform. The attached material was used as a basis for the presentation.

Due to the meeting concluding late in the day, this notice is being filed the next business day. Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

A handwritten signature in cursive script that reads "Bruce K. Cox".

Attachment

cc:

Chairman Reed Hundt  
Joseph Farrell  
Kathleen Levitz  
Jane Jackson  
Robert Pepper

John Nakahata  
Regina Keeney  
Melissa Newman  
Greg Rosten  
Elliott Maxwell

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**AT&T PROPOSAL**

**FOR UNIVERSAL SERVICE and ACCESS REFORM**

September 9, 1996

## **UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED**

### **Universal Service Principles (*Section 254*)**

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
  - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

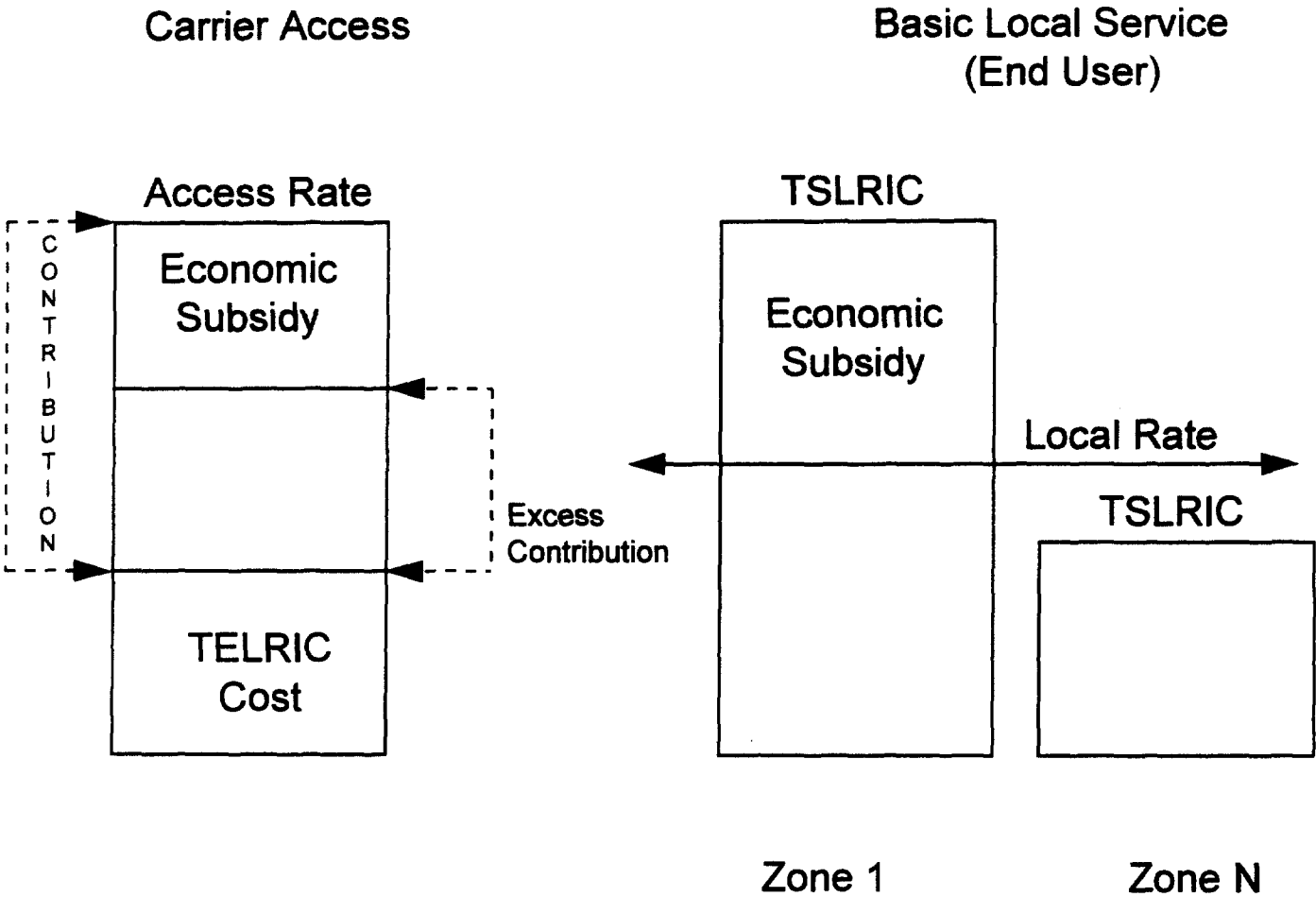
### **Access Reform Principles**

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
  - Access charge is another form of carrier-to-carrier payments

## **ELEMENTS OF THE NEW UNIVERSAL SERVICE FUND**

- Large Local Exchange Companies:
  - ♦ National Universal Service Fund (NUSF)
  - ♦ State Universal Service Fund (SUSF)
- Small Rural Local Exchange Companies:
  - ♦ NUSF
- Low Income/LifeLine Assistance Subsidy:
  - ♦ NUSF
- Schools, Libraries and Rural Healthcare:
  - ♦ NUSF
- Competitively Neutral Collection and Distribution of the Fund

# Paradigm Change



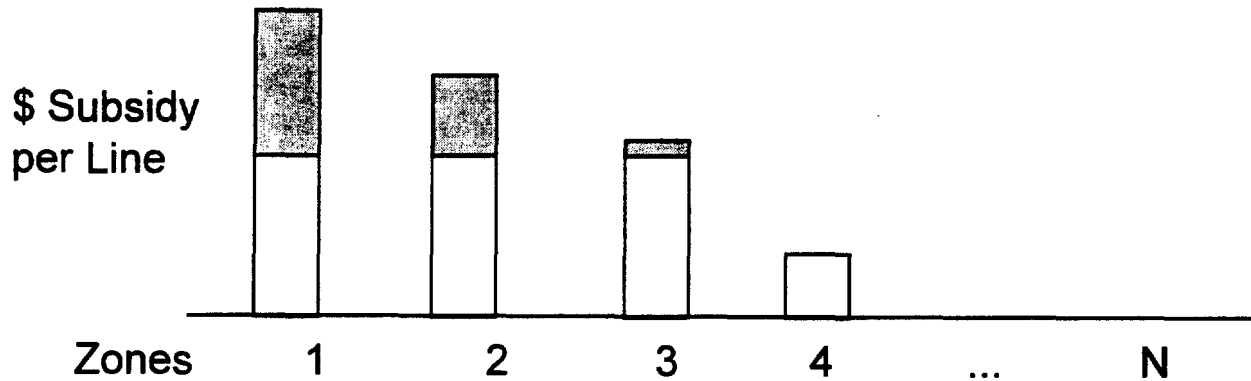
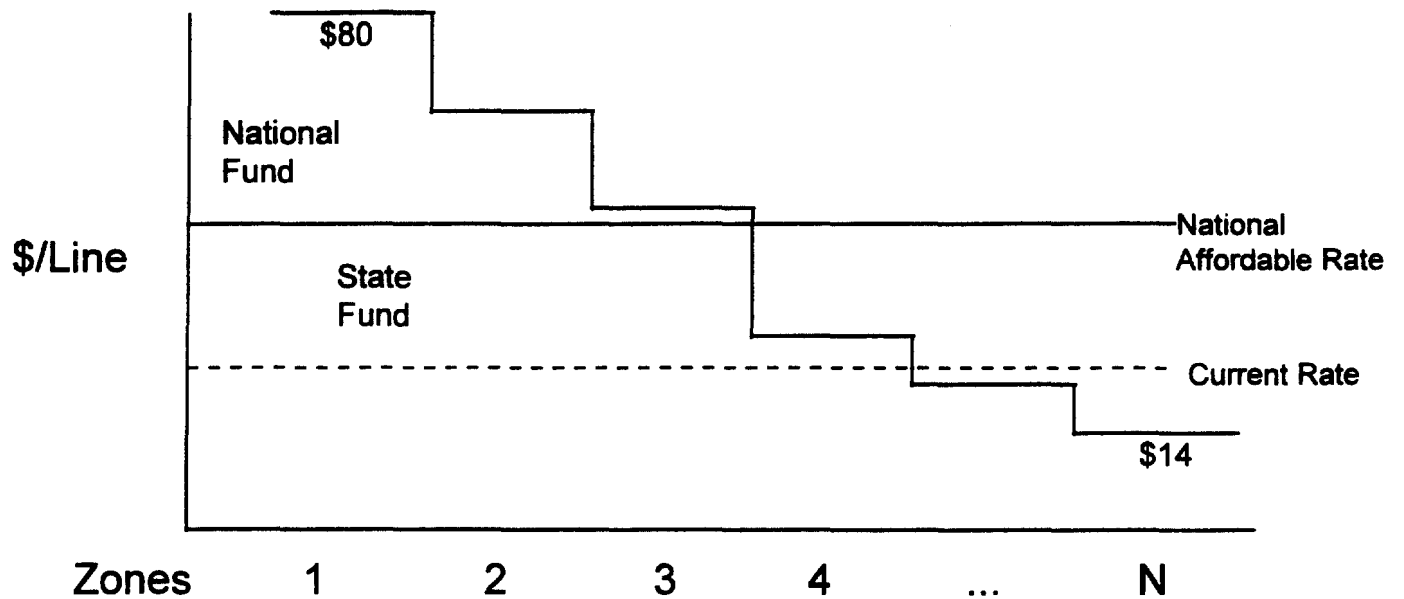
**There is a direct linkage between the  
 TELRIC prices of the unbundled network  
 elements and the subsidy per line which  
 determines the size of the fund.  
 (Illustrative)**

UNE*: LOOP	SWITCH	TRANSMISSION	SWITCH
(Zones)	End Office		Tandem
1 to N			
TELRIC \$75....\$9	.2 ¢ - .4 ¢	.25 ¢	.15 ¢

TSLRIC of Local Service	=	zone 1...zone N
Line:		\$75.    \$ 9.
Port:	]	
Switch Usage:		\$ 3.    \$ 3.
Transmission:		
Signaling:		
SUBTOTAL		<u>\$78.</u> <u>\$ 12.</u>
Retail End User Cost		<u>2.</u> <u>2.</u>
TOTAL		<u>\$80.</u> <u>\$14.</u>

\* UNE: Unbundled Network Element

# Determination of the Universal Service Fund from the TSLRIC of Local Service



From National Fund



From State Fund

## **USE LARGE LEC ACCESS RATES AS BENCHMARKS FOR SETTING RATES FOR SMALL RURAL CARRIERS**

When calculating the new universal service fund for small rural LECs...

- Access rates should be based on the rates of the large company in the state or region
- Any incremental subsidy required to meet the rural carrier's revenue needs should be provided through the new NUSF mechanism
- Subsidy need not be portable in small rural company territory initially



## **DETERMINING THE SIZE OF THE SUBSIDY FOR LOW INCOME SUBSCRIBERS**

- To ensure that those truly in need receive assistance, each state should:
  - ♦ Establish a maximum income threshold that initially determines eligibility
  - ♦ Identify one or more assistance programs that subscribers must currently participate
- Calculating Low Income (LifeLine Assistance) Subsidy:
  - ♦ Subsidy is difference between State Commissions determined basic local service rate minus Lifeline Assistance rate

$$\begin{array}{rcl} \text{Current Rate} & \text{-----} & \\ & & \} = \text{NUSF} \\ \text{LifeLine Assistance} & \text{-----} & \\ \text{Rate} & & \end{array}$$

## **RECOMMENDED COMPETITIVELY NEUTRAL TREATMENT OF ACCESS CONTRIBUTION**

*Access contribution\** consists of Economic Subsidy and Excess Contribution

*Economic subsidy* = TSLRIC minus Basic Local Service Rate

### ***Treatment of Economic Subsidy:***

- Let prices match TSLRIC costs
- Subsidize only subscribers who are needy relative to the cost of serving them
  - No need to subsidize subscribers living in Aspen
- Competitively neutral treatment of remaining subsidies
  - Portability to any serving carrier
  - Funded through surcharges on retail revenues

\* Access revenues above TELRIC

## **Summary of Results (Hatfield Estimates)**

	<b><u>RBOC</u></b>	<b><u>Large LECs</u></b>	<b><u>Total</u></b>	<b><u>Small Rural LECs</u></b>
<b><u>Access Difference</u></b>				
1 Current Access $\emptyset$ Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.00 cents+
2 TELRIC Access Rate per min.	.40 cents	.40 cents	.40 cents	.40 cents
	<b>Billions</b>	<b>Billions</b>	<b>Billions</b>	<b>Billions</b>
3 Access Contribution: (L1 - L2) X min.	\$10.21	\$4.81	\$15.02	
<b><u>Economic Subsidy</u></b>				
4 National Fund	\$1.84	\$ 1.49	\$3.33	\$1.82*
5 State Fund	\$0.95	\$0.84	\$1.79	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$2.91	\$2.35	\$5.26	\$1.82
8 Excess Contribution*** (L3-L7)	\$7.30	\$2.46	\$9.76	0

$\emptyset$  This represents the average interstate/intrastate access rate.

\* This includes the current HCF for small rural LECs.

\*\* Schools/Libraries would require additional funds to the USF.

\*\*\* This could be partly offset by applying TELRIC access prices to ESP.

## Summary of Results (Proxy Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access <sup>ø</sup> Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.0 cents+
2 Proxy Access Rate per min.	.63 cents	.63 cents	.63 cents	.63 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$9.17	\$4.16	\$13.33	
<u>Economic Subsidy</u>				
4 National Fund	\$2.20	\$1.93	\$4.13	\$1.70*
5 State Fund	\$1.17	\$0.88	\$2.05	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$3.49	\$2.83	\$6.32	\$1.70
8 <u>Excess Contribution*** (L3-L7)</u>	\$5.68	\$1.33	\$7.01	0

ø This represents the average interstate/intrastate access rate.

\* This includes the current HCF for small rural LECs.

\*\* Schools/Libraries would require additional funds to the USF.

\*\*\* This could be partly offset by applying TELRIC access prices to ESP.

## CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

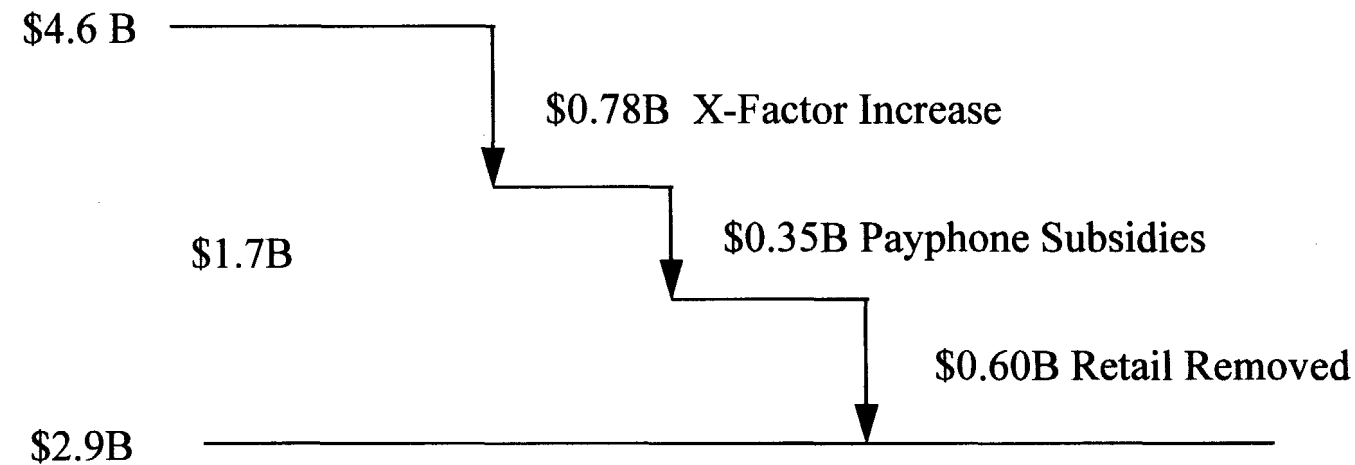
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$2.9B



# CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

\$0.73B X-Factor Increase

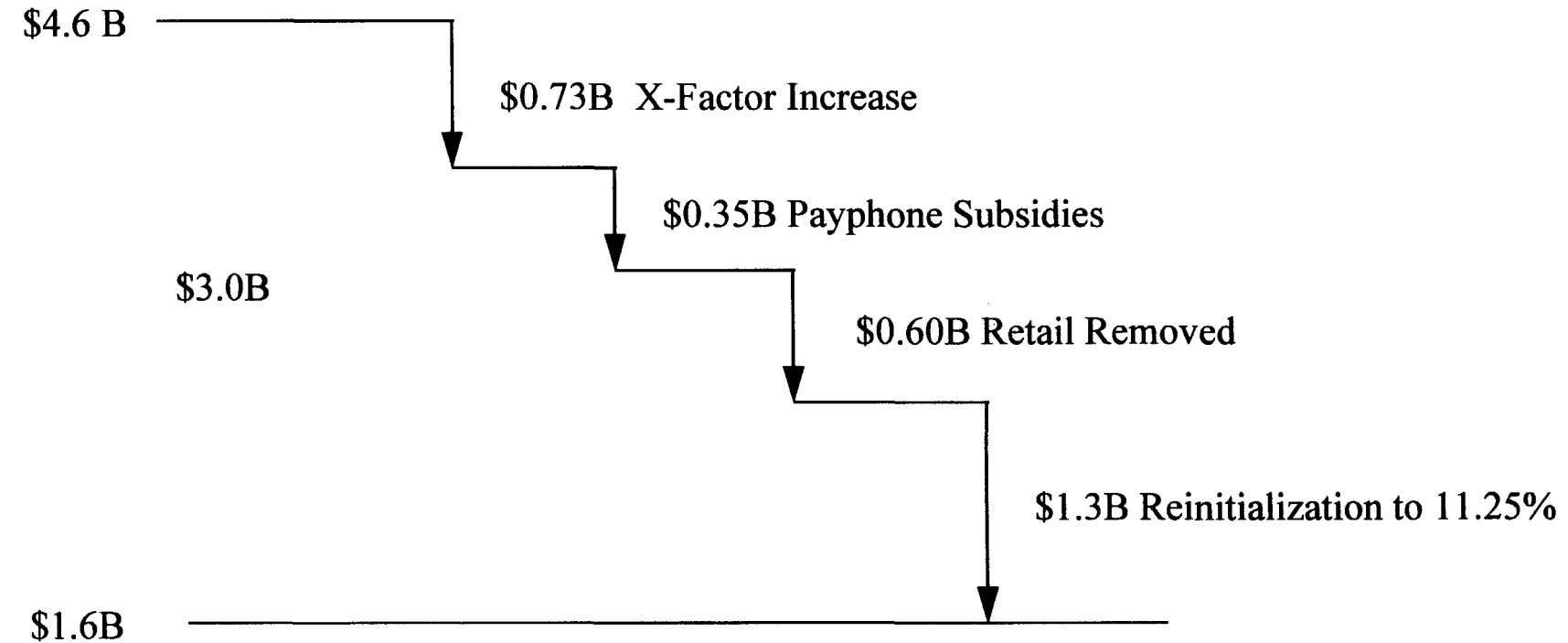
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$1.3B Reinitialization to 11.25%

\$3.0B

\$1.6B



# CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

\$0.71B X-Factor Increase

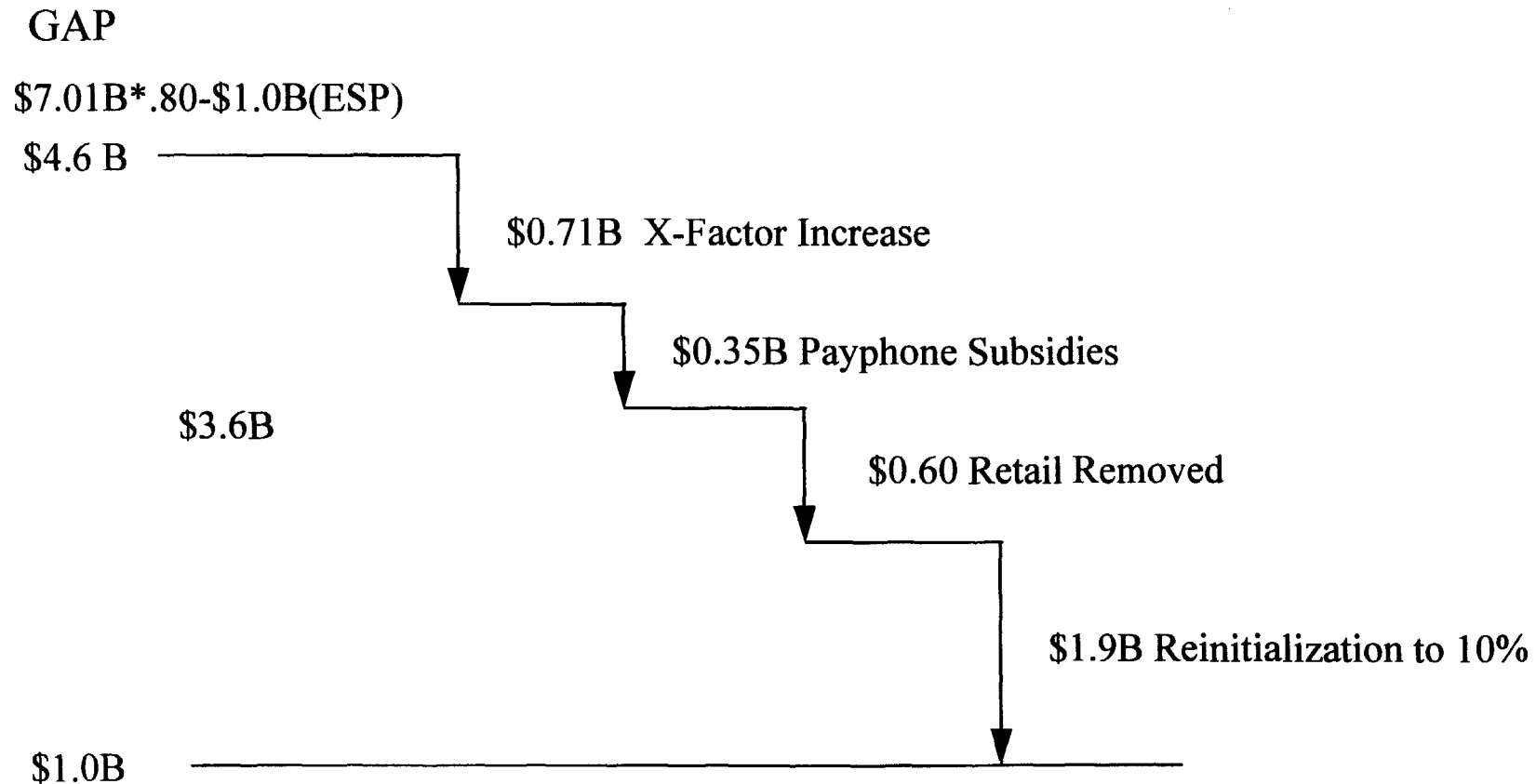
\$0.35B Payphone Subsidies

\$0.60 Retail Removed

\$1.9B Reinitialization to 10%

\$3.6B

\$1.0B



## CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8B

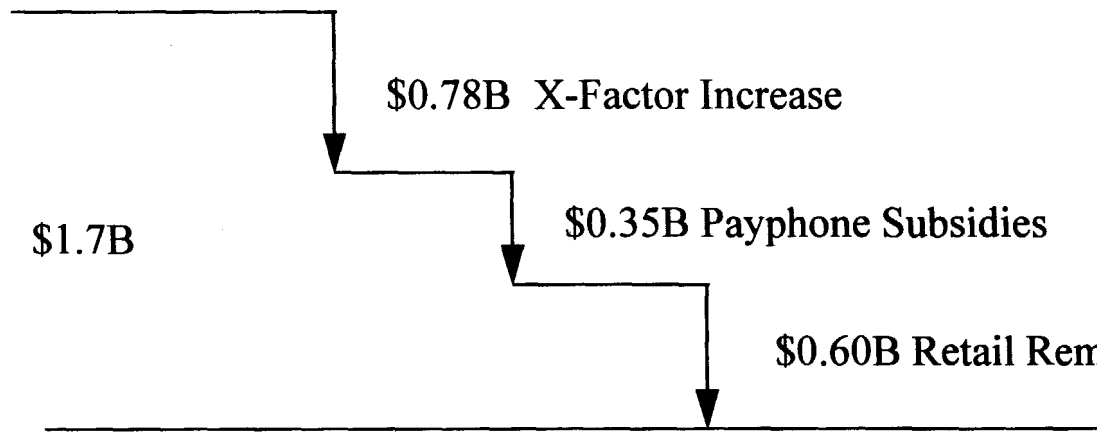
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$5.1B





# CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.73B X-Factor Increase

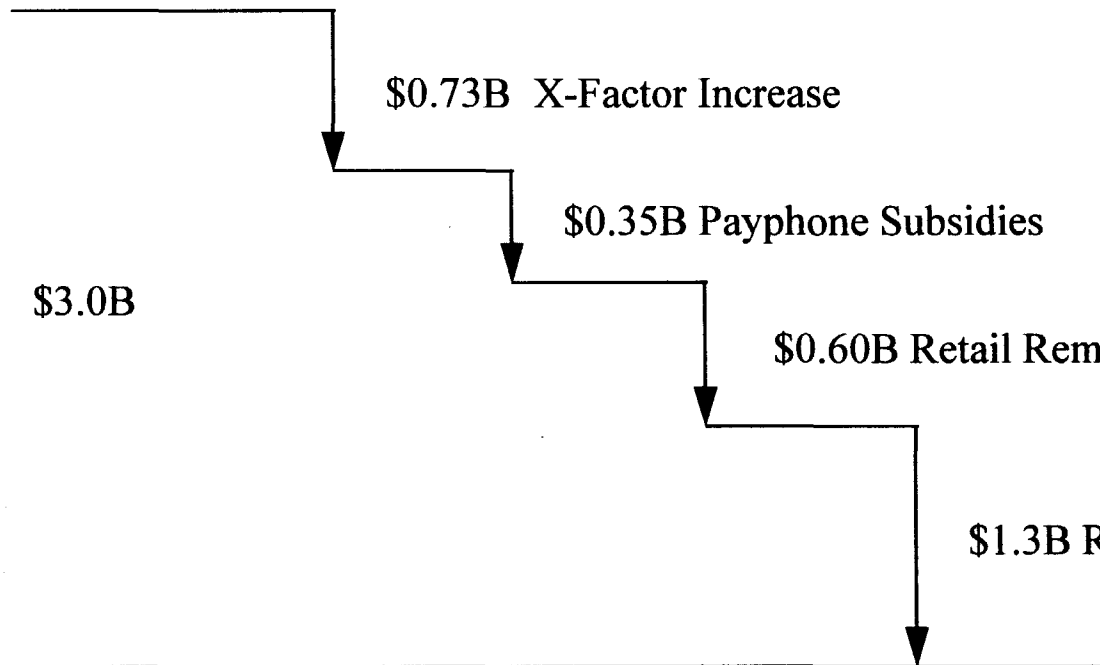
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$1.3B Reinitialization to 11.25%

\$3.0B

\$3.8B



## CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.71B X-Factor Increase

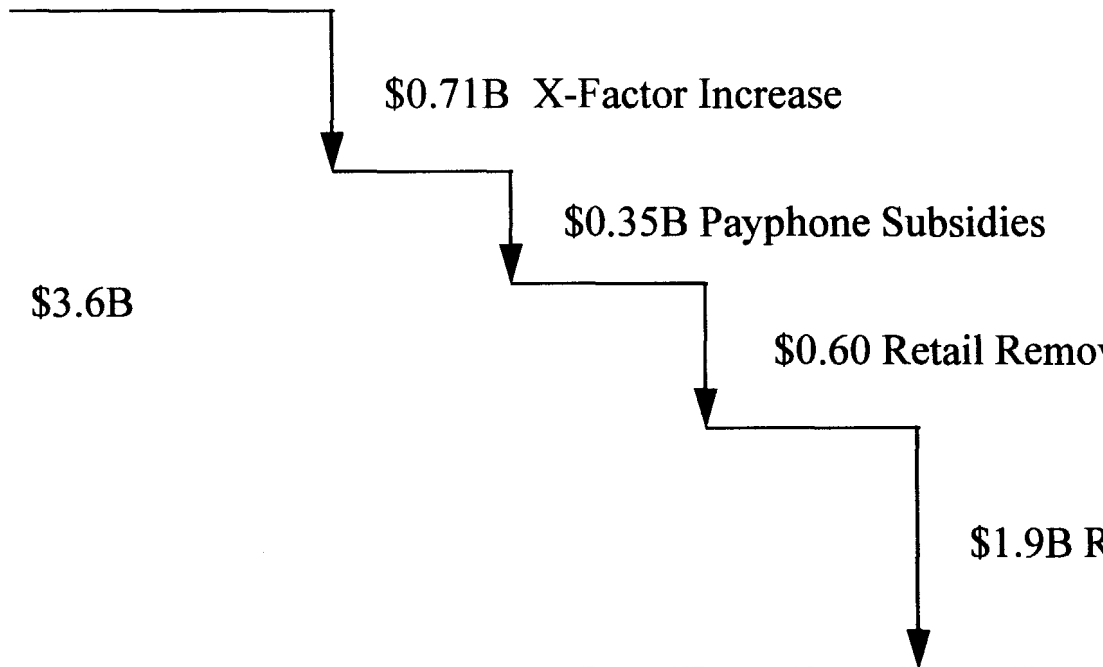
\$3.6B

\$0.35B Payphone Subsidies

\$0.60 Retail Removed

\$1.9B Reinitialization to 10%

\$3.2B



**PRICE CAP COMPANIES-1995 FORM 492 RESULTS**

COMPANY	REVENUE	EXP/TAX	NET RETURN	ANI	R/R	RETURN@ 11.25%	EXCESS	RETURN@ 10.00%	EXCESS
AMERITECH	\$2,314,807	\$1,795,638	\$519,169	\$3,093,308	16.78%	\$347,997	\$258,351	\$309,331	\$317,837
BELL ATLANTIC	\$2,978,629	\$2,371,665	\$606,964	\$4,420,570	13.73%	\$497,314	\$166,136	\$442,057	\$249,859
BELLSOUTH	\$3,341,690	\$2,613,046	\$728,644	\$4,627,473	15.75%	\$520,591	\$315,232	\$462,747	\$402,874
NYNEX	\$3,202,087	\$2,752,440	\$449,647	\$3,705,819	12.13%	\$416,905	\$49,610	\$370,562	\$119,796
PACIFIC BELL	\$1,688,700	\$1,318,024	\$370,676	\$2,451,580	15.12%	\$275,804	\$143,746	\$245,159	\$190,177
NEVADA BELL	\$53,601	\$41,483	\$12,118	\$70,221	17.26%	\$7,900	\$6,391	\$7,022	\$7,721
SOUTHWESTERN BELL	\$2,091,806	\$1,643,498	\$448,308	\$3,351,988	13.37%	\$377,098	\$107,893	\$335,199	\$171,378
USWEST	\$2,425,710	\$1,960,655	\$465,055	\$4,007,152	11.61%	\$450,805	\$21,592	\$400,715	\$97,485
ROCHESTER	\$47,621	\$35,366	\$12,255	\$63,432	19.32%	\$7,136	\$7,756	\$6,343	\$8,957
FRONTIER	\$25,977	\$18,731	\$7,246	\$33,083	21.90%	\$3,722	\$5,340	\$3,308	\$5,968
CENTEL-FLA	\$54,065	\$42,112	\$11,953	\$69,517	17.19%	\$7,821	\$6,261	\$6,952	\$7,578
CENTEL-ILLINOIS	\$34,895	\$28,084	\$6,801	\$34,780	19.55%	\$3,913	\$4,376	\$3,478	\$5,035
CENTEL-NEVADA	\$68,407	\$48,170	\$20,237	\$99,057	20.43%	\$11,144	\$13,777	\$9,908	\$15,653
CENTEL-NC	\$27,734	\$21,404	\$6,330	\$41,220	15.36%	\$4,637	\$2,565	\$4,122	\$3,345
CENTEL-TEXAS	\$26,594	\$19,086	\$7,508	\$34,420	21.81%	\$3,872	\$5,509	\$3,442	\$6,161
CENTEL-VIRGINIA	\$41,230	\$31,800	\$9,430	\$59,409	15.87%	\$6,684	\$4,161	\$5,941	\$5,287
UNITED-FLA	\$215,011	\$158,541	\$56,470	\$293,871	19.22%	\$33,060	\$35,469	\$29,387	\$41,035
UNITED-INDIANA	\$36,139	\$28,575	\$7,564	\$37,214	20.33%	\$4,187	\$5,117	\$3,721	\$5,822
UNITED-MIDWEST	\$128,078	\$94,496	\$33,582	\$171,399	19.59%	\$19,282	\$21,866	\$17,140	\$24,912
UNITED-NJ/PA	\$72,606	\$56,546	\$16,060	\$98,081	16.37%	\$11,034	\$7,615	\$9,806	\$9,473
UNITED-NC	\$143,407	\$110,797	\$32,610	\$183,533	17.77%	\$20,847	\$18,125	\$18,353	\$21,601
UNITED-OHIO	\$87,127	\$71,097	\$16,030	\$100,597	15.93%	\$11,317	\$7,141	\$10,060	\$9,046
UNITED-NORTHWEST	\$33,613	\$22,349	\$11,264	\$32,914	34.22%	\$3,703	\$11,456	\$3,291	\$12,080
UNITED-SOUTHEAST	\$59,729	\$44,536	\$15,193	\$79,734	19.05%	\$8,970	\$9,429	\$7,973	\$10,839
SPRINT LOCAL	\$1,028,635	\$777,603	\$251,032	\$1,335,746	18.79%	\$150,271	\$152,668	\$133,575	\$177,966
SNET	\$332,014	\$276,732	\$55,282	\$477,342	11.58%	\$53,701	\$2,395	\$47,734	\$11,436
GTE			\$534,918	\$4,430,273	12.07%	\$498,406	\$55,322	\$443,027	\$139,228
TOTAL			\$4,461,314	\$32,067,995	13.91%	\$3,607,649	\$1,293,431	\$3,206,800	\$1,800,780